February 24, 2014

The Honorable Dave Camp
Chairman
House Ways and Means Committee
House Office Building
Washington, DC 20515

The Honorable Sander Levin
Ranking Member
House Ways and Means Committee
House Office Building
Washington, DC 20515

The Honorable Ron Wyden
Chairman
Senate Finance Committee
Senate Office Building
Washington, DC 20510

The Honorable Orrin Hatch
Ranking Member
Senate Finance Committee
Senate Office Building
Washington, DC 20510

Support Tax Reform That Incentivizes Capital Investment in the U.S.

Dear Chairmen Camp and Wyden and Ranking Members Levin and Hatch:

The undersigned organizations and companies appreciate your efforts to advance tax reform in order to make U.S. businesses more competitive globally by lowering the statutory tax rate, which for corporations, is now the highest among developed nations. We invite you to share our goal that tax reform results in keeping America competitive and attractive for capital investment that will result in economic growth and new jobs for American workers. Working together on comprehensive tax reform, we can ensure Americans are back to work with smart domestic capital investments.

While we support lowering tax rates, some current proposals under consideration could actually raise barriers to capital and increase the effective tax rates of a broad swath of domestic industries. In particular, proposals that impede cost recovery and remove the Section 199 domestic production deduction or eliminate the current intangible drilling costs deduction would decelerate investment by capital intensive industries by increasing the cost of capital and the effective tax rates of those companies. Tax reform should not punish investment and production in the United States. Instead it should encourage companies to make investments here that will provide quality jobs and a significant corporate tax base.

Cost recovery provisions are very important to domestic companies that are continuously faced with the need to make investments in new facilities and equipment in order to modernize, remain competitive, and comply with environmental laws and regulations. Investments in factories, plants, pipelines, airplanes and mechanical equipment typically require substantial cash outlays, and such large investments take a number of years to yield their return. Cash flow is therefore a key decision in whether and where any capital expenditure is made. And every single one of these investments yields good-paying jobs for American workers.

The current modified accelerated cost recovery system, or MACRS, provides U.S. industries with a suitable mechanism to recover capital costs and reinvest in their businesses and workers. MACRS has and should continue to play an integral role in driving US economic growth. Reducing accelerated depreciation, or eliminating MACRS, in order to finance a statutory rate reduction, will in effect increase the effective tax rate on new capital investments and undermine the attractiveness of investing in significant US capital projects. The Joint Committee on Taxation (JCT) has concluded that a rate reduction paid for by repealing items like accelerated depreciation will have a negative impact on the economy.

Further, proposals which would place arbitrary limits on the deductibility of corporate interest will also have a negative impact on the investment decisions of capital intensive companies. Interest on debt incurred in business is an ordinary and necessary cost of doing business and should remain fully deductible. Limiting a corporation's ability to deduct its interest will increase the overall cost of capital, disproportionately hurting those capital intensive industries that need to borrow to grow because of the considerable costs associated with those investments. In particular, small and medium size businesses will be negatively impacted by a change in interest deductibility because they traditionally have less access to other financing sources.

Strong companies that create jobs and invest in America are critical to ensuring a healthy domestic economy, and a pro-growth tax policy should drive the investment in domestic facilities and equipment.

Sincerely,

Alliance for American Manufacturing

American Fuel and Petrochemical Manufacturers

American Iron and Steel Institute

American Petroleum Institute

Atlas Air World Wide Holdings, Inc.

Continental Automotive, Inc.

Consumer Energy Alliance

Energy Equipment & Infrastructure Alliance

Independent Petroleum Association of America

National Business Aviation Association

National Ocean Industries Association

Praxair, Inc.

Precision Machined Products Association